

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-06 ISO-00 IO-10 NEA-10 PA-01 PRS-01 USIA-06

SP-02 AID-05 EB-07 NSC-05 CIEP-01 SS-15 STR-04 OMB-01

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E.O. 11652 ADS, DECLAS 9/30/75

TAGS: EAID, EFIN

USADB

FOR NAC AGENCIES

SUBJECT: DEVELOPMENT FINANCE INSTITUTIONS

REFS: (A) MANILA 8577 (7/18/74); (B) TREASURY 071824Z (AUG.
1974)

SUMMARY: ADB POLICIES RE DEVELOPMENT FINANCE INSTITUTIONS
(DFIS), WHICH WERE DISCUSSED DURING PAST YEAR BY
BOARD OF DIRECTORS, HAVE BEEN REFORMULATED IN DOCUMENT
FOR BOARD CONSIDERATION ON JUNE 17. U.S. DIRECTOR PLANS
TO CONCUR IN PROPOSED PRACTICES AND POLICIES, INCLUDING
CHANGES IN PATTERN OF LEVY OF COMMITMENT FEES AND
INTEREST CHARGES AND PROCUREMENT PROCEDURES. END SUMMARY

1. ADB BOARD OF DIRECTORS HAS DISCUSSED STAFF WORKING
PAPER 7-74 ON BANK PRACTICES AND POLICIES FOR ASSISTANCE
TO DFIS ON SEVERAL OCCASIONS FROM AUG. 1974 TO FEB. 1975.
NEW PAPER, ADB DOC. R53-75 ENTITLED "DEVELOPMENT FINANCE
INSTITUTIONS ACTIVITIES AND GUIDELINES" POUCHED
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MAY 27, WILL BE CONSIDERED BY BOARD OF JUNE 17 AND

ATTEMPTS TO SYNTHESIZE PREVIOUS MATERIAL AND BOARD DISCUSSIONS THEREON.

2. THERE ARE NO MAJOR DIFFERENCES BETWEEN NEW DOCUMENT AND LAST YEAR'S STAFF WORKING PAPER AS OUTLINED REF.

A. PREVIOUS REPORT NOTED THAT POLICY CHANGES WERE ANTICIPATED IN REGARD TO TWO SIGNIFICANT ISSUES, I.E., PATTERN OF LEVYING COMMITMENT FEES AND INTEREST CHARGES AND PROCUREMENT PROCEDURES. PRESENT POLICIES ON THESE TWO ISSUES ARE AS FOLLOWS:

(A) COMMITMENT FEES AND INTEREST CHARGES --

LOAN IS ACTIVATED IN STAGES BY CREDITING LOAN ACCOUNT WHEN EACH SUBLOAN IS FINALIZED. INTEREST RATE FOR EACH SUBLOAN IS RATE PREVAILING AT THAT TIME FOR BANK'S ORDINARY OPERATIONS. COMMITMENT CHARGES ARE LEVIED ON AMOUNT REMAINING UNDISBURSED FOR EACH SUBLOAN CREDITED TO LOAN ACCOUNT AT RATE SPECIFIED IN BANK'S LOAN DOCUMENTS.

(B) PROCURMENT -- BANK PERMITS PURCHASES BY DFI SUB-BORROWERS ON BASIS OF (I) "REASONABLE COMPETITION" FOR SMALL-VALUE ORDERS, (II) "INTERNATIONAL SHOPPING" FOR MEDIUM-VALUE ORDERS, AND (III) "INTERNATIONAL COMPETITIVE BIDDING" FOR LARGER-VALUE ORDERS. CUT-OFF AMOUNTS FOR THREE TYPES OF PURCHASES, WHICH VARY FOR DIFFERENT DFIS, ARE AGREED BETWEEN BANK AND BORROWER AND ARE INCORPORATED IN LOAN DOCUMENTS.

3. NEW DOCUMENT RECOMMENDS FOLLOWING POLICY RE COMMITMENT FEES AND INTEREST CHARGES:

(A) AS IN CASE OF PROJECT LOANS, CREDIT ENTIRE LOAN AMOUNT TO LOAN ACCOUNT ON DATE WHEN LOAN BECOMES EFFECTIVE, BUT FINANCIAL AUTHORIZATION FOR WITHDRAWALS (AS DISTINCT FROM SUB-LOAN APPROVAL) TO BE GIVEN BY BANK FOR EACH INDIVIDUAL SUB-LOAN WHETHER ABOVE OR BELOW "FREE LIMIT";

(B) LEVY COMMITMENT CHARGES IN LINE WITH SUCH POLICY AS BANK MAY BE FOLLOWING RE PROJECT LOANS FROM LIMITED OFFICIAL USE

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ORDINARY SOURCES; AND

(C) APPLY FIXED INTEREST RATE FOR ENTIRE AMOUNT OF LOAN TO DFI, ON BASIS PREVAILING FOR BANK'S ORDINARY OPERATIONS AT TIME LOAN IS SANCTIONED.

4. PROPOSED CHANGE (A) IS EXPECTED TO INFLUENCE DFIS IN MAKING MORE REALISTIC ESTIMATES OF FUTURE FOREIGN

CURRENCY REQUIREMENTS AND IN TAKING ACTION TO UTILIZE FUNDS EXPEDITIOUSLY AND (B) WILL FACILITATE BANK'S ACCOUNTING ASPECT OF LOAN ADMINISTRATION.

5. UNDER PROPOSED POLICY ON PROCUREMENT, BANK WOULD LIBERALIZE PROCEDURES CONSIDERABLY BY ADOPTING PRESENT WORLD BANK PRACTICES FOR DFIS. PRIMARILY, THIS MEANS INTERNATIONAL COMPETITIVE BIDDING PROCEDURES WOULD NOT BE INSISTED UPON AS AT PRESENT. HOWEVER, BANK WOULD ENCOURAGE DFIS TO ADOPT INTERNATIONAL BIDDING PROCEDURES BY SUB-BORROWERS IF INVESTMENT CONCERNED IS UNUSUALLY LARGE AND WHEN SUCH PROCEDURES WOULD BE IN INTEREST OF ECONOMY AND EFFICIENCY IN PROCUREMENT. AT SAME TIME, BANK WOULD REQUEST DFIS TO SATISFY BANK THAT PROCUREMENT PROCEDURES APPLIED BY THEM IN RESPECT TO INDIVIDUAL SUB-BORROWERS ARE APPROPRIATE IN THE CIRCUMSTANCES AND ENSURE PROCUREMENT OF SUITABLE GOODS AT REASONABLE PRICES AND THAT FAIR CANVASSING HAS BEEN DONE IN SELECTING SUPPLIERS.

6. IN RELAXING PROCUREMENT PROCEDURES, BANK STAFF WILL PROVIDE BOARD OF DIRECTORS PERIODIC REPORTS ON ACTUAL PROCUREMENT FROM DIFFERENT MEMBER COUNTRIES UNDER BANK LOANS TO DFIS. IN ADDITION, BANK WILL COLLECT AND INCORPORATE IN APPRAISAL REPORT TENTATIVE INFORMATION ON POSSIBLE DEPLOYMENT OF BANK'S LOAN FUNDS BY CONCERNED DFI INTO DIFFERENT TYPES OF INDUSTRIES AND ESTIMATED SHARES THEREOF. THIS TENTATIVE INFORMATION WILL ALSO BE INCLUDED IN PRESS RELEASES ISSUED ON APPROVAL OF SUCH BANK LOAN.

7. U.S. DIRECTOR PROPOSES TO CONCUR IN PRACTICES AND POLICIES FOR DFIS AS EXPLAINED IN DOC. R53-75. SPECIFICALLY LIMITED OFFICIAL USE

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THOSE RELATING TO PATTERN OF LEVY OF COMMITMENT FEES AND INTEREST CHARGES AND PROCUREMENT PROCEDURES. IN THIS REGARD, USADB NOTES NAC GUIDANCE (REF B) URGING CLOSE MONITORING OF U.S. SUPPLIER SHARE AFTER PROCUREMENT GUIDELINE CHANGES. PURNELL

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